Summer 2019

The Woodworks. At the Convention Center. NAIOP Workshop Project

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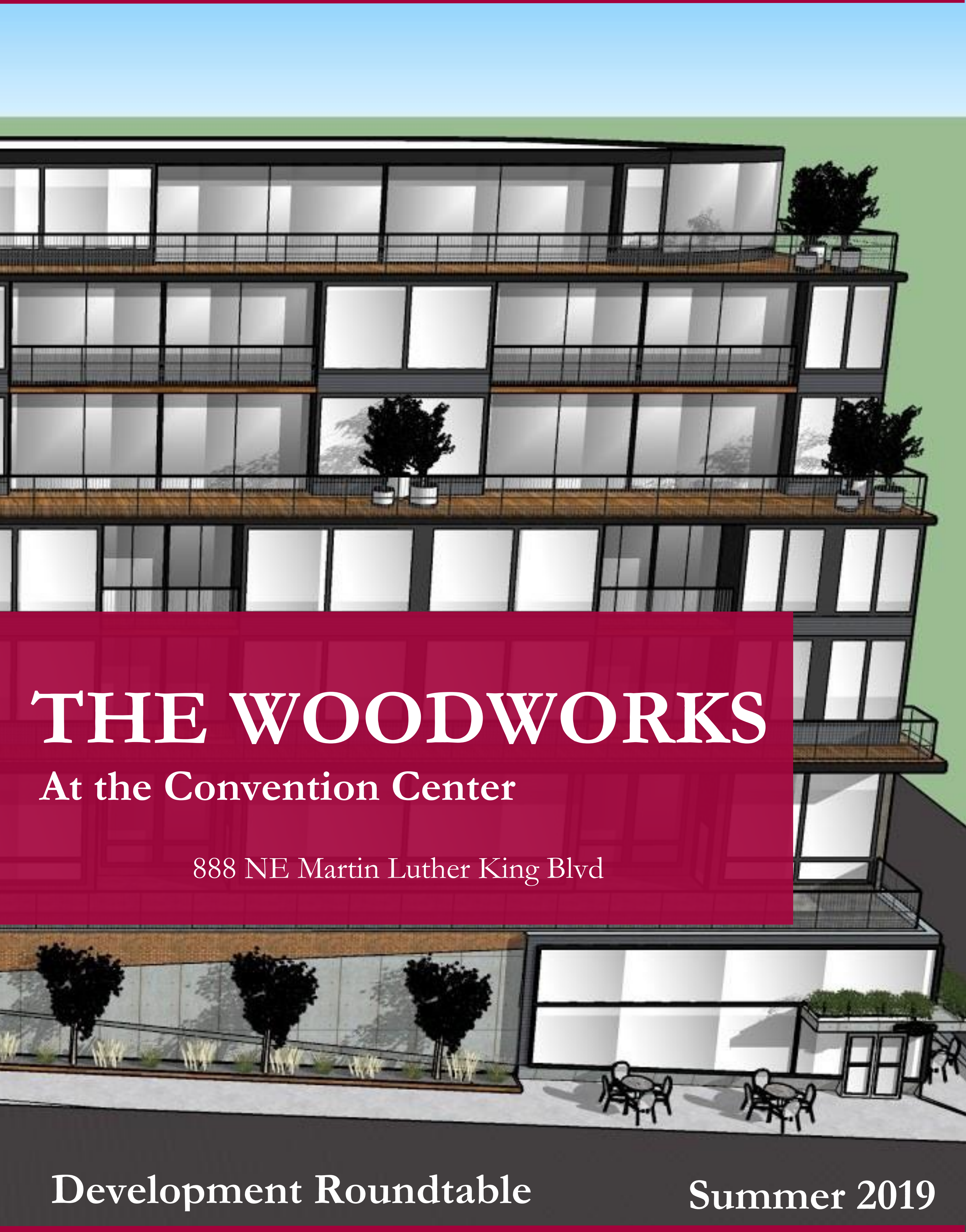

THE WOODWORKS

At the Convention Center

888 NE Martin Luther King Blvd

Development Roundtable **Summer 2019**

Executive Project Summary

The Development Roundtable Team is seeking investment approval for the Woodworks project, which encompasses a public-realm benefit and a mixed-use office and retail building in the emerging periphery of Silicon Forest of the close-in east side of Portland, OR. The subject site is situated on the northeastern corner of the Portland Convention Center, between NE Martin Luther King Blvd and NE Grand Ave. Both parcels of land are owned by Prosper Portland, who is interested in establishing stable income streams from this land.

The Woodworks building will provide 132,059 SF of creative office space, 27,880 SF of retail space on the ground floor, and 67 underground parking stalls. The first floor retail amenities will capitalize on traffic from the adjacent convention center and will include local small business retailers, women-and-minority owned businesses, a childcare service, and organic eateries. The above five floors of creative office space will display the cross-laminated timber construction elements, a building style which has enjoyed successful reception in past Portland projects. Competitive leasing elements include TI buildout allowances, leasable outdoor terrace space, parking allowances, and LEED Gold certified operation.

The investment horizon for this development is expected to mature in 10 years with an extension option depending on market conditions at that time. It is the opinion of Development Roundtable that the Lloyd District is at the beginning of a transformation period, and entering this overlooked submarket in the early stages will yield significant financial rewards for those who seek to capitalize on this opportunity. Roundtable is seeking patient capital with the intention of placing an investment for ten years or more. A refinance is to occur at the end of the fifth year once stabilized income has been realized, in which investors will be able to pull out 69.90% of their original investment to deploy into other ventures. Considering past cyclical real estate market trends, placing funds in the 5 year Woodworks investment could coincide with the emergence from a recessionary period that economists agree is imminent.

PROGRAM SUMMARY	
Parking Spaces	67
Retail/SF	27,880
Office/SF	132,059
Total	160,006

FINANCIAL RETURNS	
Project Cost	$79,191,441
Initial Equity Needed	$36,833,979
Initial Loan Needed	$42,357,462
Year 11 NOI	$6,416,532
Year 10 Disposition Price	$116,664,225
Year 10 Cash on Cash	16.43%
Year 10 IRR	11.57%
Year 10 NPV	$8,278,458
Year 10 DSCR	1.55
Year 10 Equity Multiple	2.02

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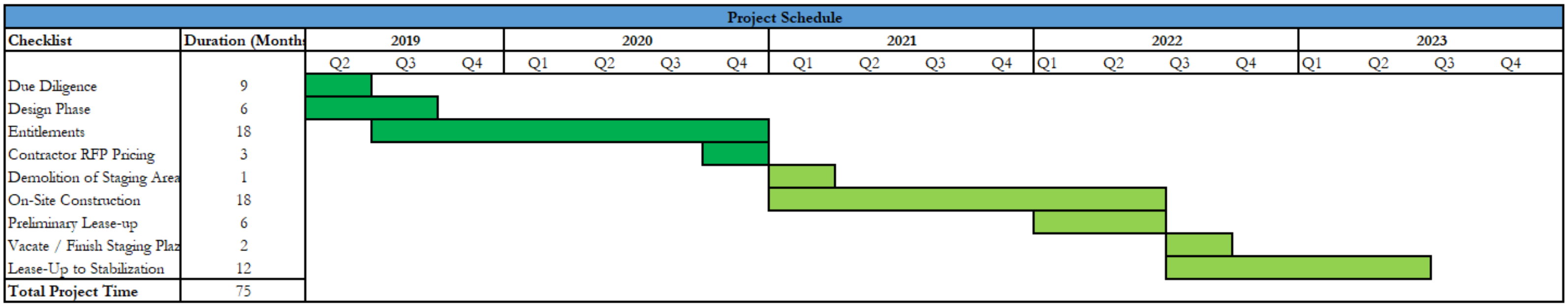
Project Timeline



Due Diligence

The team started due diligence in the third quarter of 2019, establishing an understanding of existing entitlements and land ownership interests. Neighborhood conditions, market analyses, existing pipeline, zoning factors, traffic flow, tax implications and other environmental considerations were taken into account throughout this process to develop a sensible use plan and overall direction for the development team.

In the interest of protecting the site's existing ownership and their priorities, the following deal structure was proposed:
Development Roundtable is to lease the entire southern block from Prosper Portland and not purchase it outright. Prosper Portland would maintain ownership of the entire northern block where the Inn at the Convention Center and the old Action Sports site buildings currently sit. The value of the lease would be based on a yearly payments of 6% of the appraised value of the land with 3% escalations occurring every five years.

It would be preferable for a typical developer to purchase the property outright, however it is the priority of Prosper Portland to maintain ownership of the site. Additionally, there is the financial benefit of not having to pay for the purchase price for the land all at once. This reduces the all-in project cost significantly in the first year from $87,530,697to $77,530,697. The developer would take on a yearly lease payment of $658,389 in addition to the necessary debt service, but the structuring of a land lease as opposed to an outright acquisition represents a $10,000,000 up-front reduction in the overall project cost.

While the northern block occupied by The Inn at the Convention Center and Action Sports would not be part of the lease, the general contractor would use the southern half of this block as a staging ground during construction of the primary structure. The Action Sports building would be demolished first under a forgivable loan from Prosper Portland, which is advantageous for that entity due to the cost structure of public vs private works. Demolishing this structure falls under the umbrella of Urban Renewal as it is an eyesore to the area and has been vacant and derelict for years. This way, Prosper Portland maintains the complete ownership of the entire northern block which could be ripe for future development as the area's economic conditions evolve. Additionally, Development Roundtable will enjoy the right of first refusal on future developments on this site.

The General Contractor would pay rent to Prosper Portland during construction of the building for use of the Action Sports staging area. Once construction is complete, the half-block would be converted into a park/food cart pod where up to 12 food carts could have a permanent presence. Upon completion of the project, Prosper Portland would enjoy the income from the food cart plaza as well as the land lease income from the Woodworks.

Design

Due diligence and deal structure having successfully yielded feasible conditions for the project, architects were consulted to create a wedding-cake style exterior providing leasable terraced space, sustainable building elements, and creative use of the site's steep gradient to facilitate the plate of underground parking. Due to its sustainable attributes, Cross-Laminated Timber construction will be utilized. An open interior space is favored by modern office users and lends itself well to this style of building, and will serve as the visual theme throughout the interior. Terrace space will be available at a premium to the users who prefer to include an outdoor option for their working environment. Total sustainability efforts throughout design and construction will target a LEED Gold certification.

Entitlements

The design review process and the building permitting is projected to begin early in 2020 and take as long as 18 months as the design of this building is within the use and height parameters set forth by city zoning and overlays.

Request for Proposals

In order to accurately test market assumptions in regard to construction costs, timeline completions, and green building avenues, requests for contractor work proposals were sought from rendered architectural drawings. Prior to contractor selection and contractual commitments, final changes will be addressed and individual costs considered.

Construction

The physical construction portion of the timeline will take place in three fundamental phases. Phase one will comprise of the demolition of the existing action sports building currently occupying the southern half the Inn block and the subsequent transformation of that lot into a staging area for the Woodworks building. Phase two encompasses the erection of the Woodworks itself on the southern block. The third and final phase of construction will be the vacation and finishing of the programmable plaza/food truck half-block south of the Inn, in accordance with the deal structure arranged with Prosper Portland.

Lease-up, Absorption, Hold

The leasing stage of the timeline will begin once there are example floorplates ready for brokerage, prior to the 2023 delivery of the project. Absorption of the office and retail space in the Woodworks will take place over a period of 12 months in accordance with market research, during operation year 4. Pre-leasing activity in Portland has been a challenging feat in some projects, however the target retail brands and creative office tenants seeking the space and amenities provided by the Woodworks enhances pre-leasing activity. Roundtable is assuming up to 50% for the retail spaces and 25% of the office spaces will be pre-leasable. Stabilized leasing income will be fully realized by Year 5.

The Sponsor (General Partner) will be contributing 10% of the equity capital ($3,683,398) needed, and a single Limited Partner such as a family office who has previously worked with roundtable, will be providing the remaining 90% of equity capital ($33,150,581). The equity funds account for 46.51% of the total project cost.

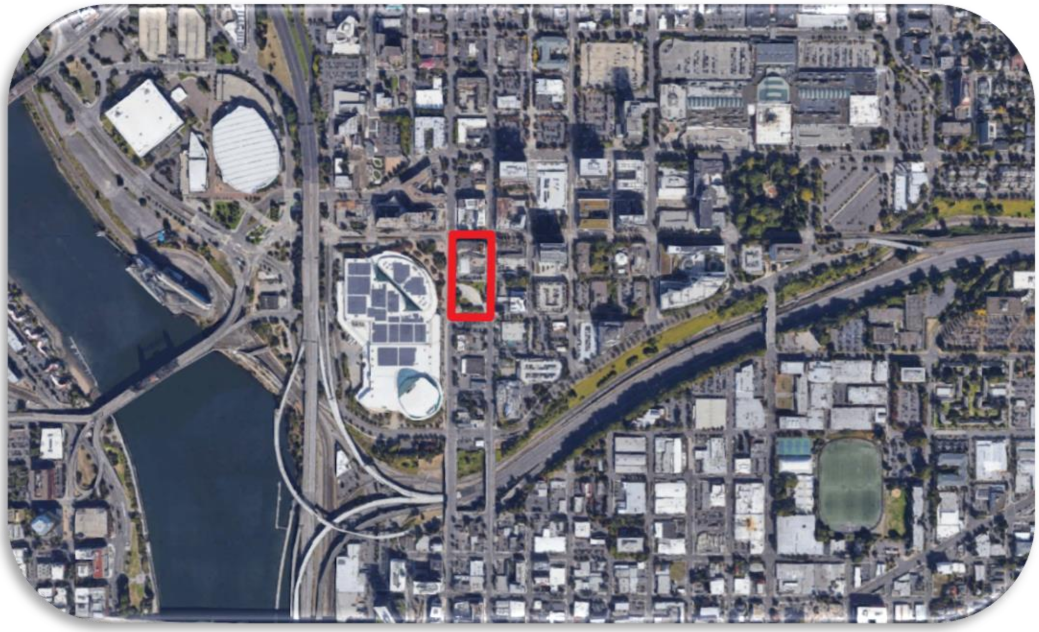
The debt capital will be provided by a regional bank who has previously financed Development Roundtable's projects. The debt portion of the project will be 53.49% of the total project cost. During the entitlement and construction phase of the project, the loan is to be interest only with an annual rate of 5.75%, origination points of 1%, and a term of 5 years. The amount of the senior loan debt was approached via the LTV and DSCR methods with the lender deferring to the lesser of the two. The LTV loan amount was $55,434,009 and the DSCR loan, based on a stabilized year-five net operating income of $5,276,110 and a DSCR ratio of 1.25, came out to $42,357,462. The DSCR loan prevailed at a quoted rate of 5.50. However, the underwriting of the project occurred at 5.75% to protect the model from changing market conditions.

The initial loan is to be interest-only with no principal payments or principal reductions occurring during the entitlement and construction period which is estimated to be thirty six months. Interest during this period will be carried and applied to the outstanding principal balance when the capital event occurs. When the long-term refinance occurs at the end of Year 5, the lender's carried interest from the construction financing phase of the project will be satisfied. Remaining equity funds will then be distributed throughout the investor partnership.

Site Summary Details

Neighborhood

The neighborhood primarily consists of commercial office spaces but also has some retail and occupied residential spaces. The surrounding road and sidewalk infrastructure is updated, user friendly, and well maintained. The area is generally busy during the weekdays and quiet in the evenings and on the weekends due to the primary building type being traditional office. During the frequent events at the Convention Center or Moda Center however, the neighborhood's population doubles, causing temporary increase in demand for food and beverage services, hotel, and retail.

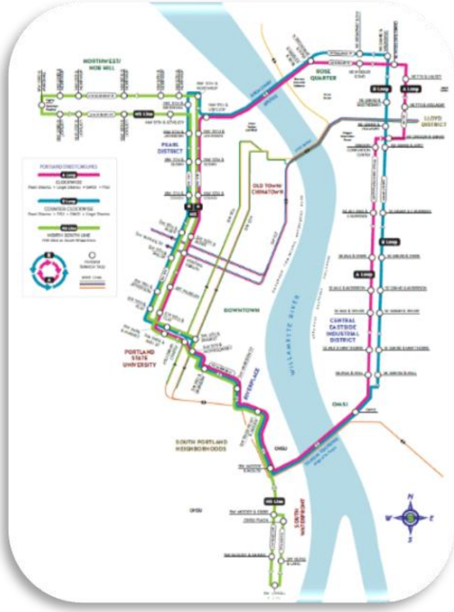


Nearby Amenities & Landmarks

The site is directly across the street from the Convention Center, which will provide a significant flow of foot traffic for this project's ground floor retail, food carts, and plaza space. The surrounding buildings are primarily commercial office spaces, with very few residential units scattered among them. There are other ground floor retail spaces nearby, including a small grocery store, cafes, coffee shops, restaurants, and a variety of others.

Transportation Systems

There is a streetcar stop and a MAX light rail station on NE Grand Avenue, less than a block away from the site itself. There are many surrounding stops in the neighborhood, making transportation easily accessible. Additionally, there is a generous supply of parking, both on the street and in lots and garages nearby (not including our own parking garage), allowing for easy access for personal motor vehicles. Lastly, there are up to date sidewalks, bike lanes, and bicycle parking areas, which allows for and encourages people to use alternative forms of green transportation.



Entitlement Summary

Strategic Plan, Prosper Portland

This site is zoned CX (Central Commercial), allowing for office, retail sales, and housing uses. Allowable FAR ranges from 4:1- 15:1, with building height limits as low as 75’ or six stories in this zone. Parking is not required unless a housing use is being proposed, though in this case the allotted parking proposed exists to facilitate the office use.

The Action Sports building, which was built in the 1950s and therefore likely contains black mold, lead paint, and asbestos, will be demolished and later turned into a multifunction plaza. The permitting, demolition, and clearing of the Action Sports building will cost an estimated $120,000 and take about two months from start to finish. Development Roundtable will utilize the plaza space after the demolition as a staging area for the construction on the Woodworks.

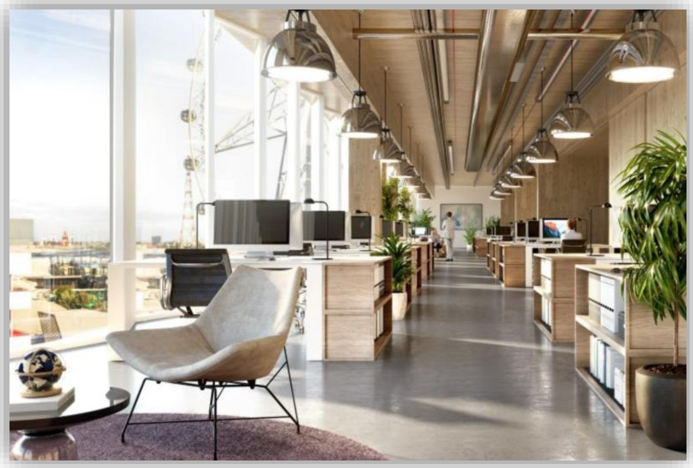
Design Program

Target Market

Roundtable's target tenant profile includes users of creative office space, such as: Technology, Software, Internet, Design, Architectural and Engineering firms. Some nearby examples include Daimler North America, and Port of Portland's office, both of which are configured for an open creative workspace. Roundtable's project seeks to expand the east side's share of the Silicon Forest for creative office users. Innovation is a collaborative endeavor and creative office encourages professional communal participation. These industries are seeking a collaborative environment to maximize the fundamentally creative nature of their businesses, and the CLT product type has proven to be popular among these tenant types. The Woodworks' most similar comparable is the "The District Office" on 525 SE MLK. The District Office has pre-leased over 55,000 square feet to Regus, a co-working space provider, and Hacker Architects. This pre-leasing activity is a strong indicator that CLT creative office space exhibits superior pre-leasing tendencies in the Portland market as compared to the aggregate.

Leasing Strategy

The triple-net lease is still the predominant structure utilized in Portland's office leasing environment. These lease terms will include TI allowances, parking allotments, and full reimbursement structure for passthrough services. Free rent will be based on lease terms - one month per year of lease agreement with a maximum of 6. Third-party brokerage and typical BOMA lease structures will be utilized to ensure stable tenant leasing activity across the projected delivery and absorption period.



Site Plan

The planning for the site takes three forms, which are spread across the two blocks of this project. The entire southern block will be new construction for a mixed-use office/retail/parking building. One full floorplate of underground parking will be provided to serve the building tenants and adjacent uses, providing 67 parking stalls to be accessed from NE Oregon St along the southern border of the block, allowing quick access to both NE Grand running north and NE MLK running south on either side. Five percent of the allotted parking footage will be used as bike storage, which is consistent with competitive amenity packages for buildings of this type. The steep grade present on this site presents a distinct advantage, reducing the need to excavate a large portion of the dirt necessary to place a plate of parking under the first floor of the building.

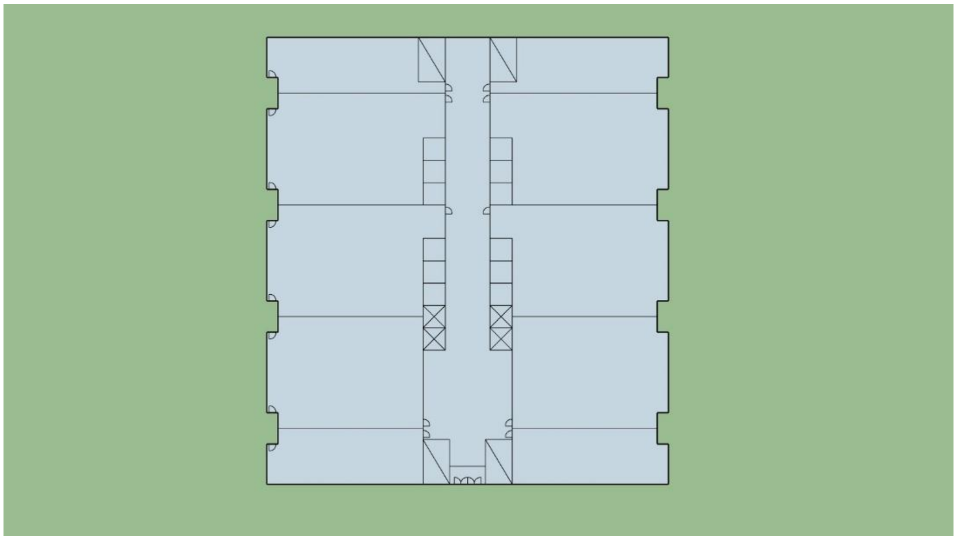
The ground floor will provide 27,880 square feet of retail space in compliance with Portland's building rules, spanning the streets on either side. Due to the grade present, there is room for both street-level retail on the south-western corner as well as parking garage access with NE Oregon St, and service truck/bay entrance. A terraced western-facing wall will provide areas for bioswales, sitting, wheelchair access, and access to the retail spaces along that side. The five floors above the lobby level will be divided into class-A and open/creative office space totaling 132,059 square feet, with competitive TI buildout allowances.

As the last stage of construction, the one-time Action Sports complex occupying the southern half of the block containing the Inn, having been demolished and used as a staging area, will be delivered back to Prosper Portland as a finished sod-and-grass plaza space for food truck use - both the new plaza and Inn itself will remain under the ownership and operation of Prosper Portland. The Inn currently earns over $1.6 million in gross annual revenue for Prosper Portland, and there are existing plans in place to invest in its future capabilities in order to continue to compete with other hotels

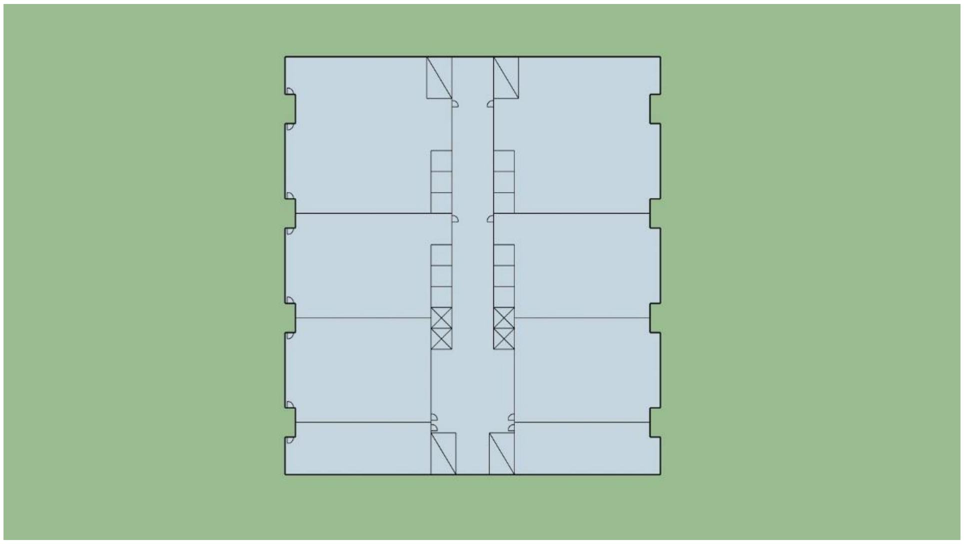
in the Lloyd. Roundtable was able to review the planning phases for the Inn for the immediate future, recommending that the investment considered by Prosper Portland might be increased to effectively double rental rates. Compared to its neighboring competitors, the Inn stands to generate similar rental rates at a fraction of the investment exposure.

Floorplates

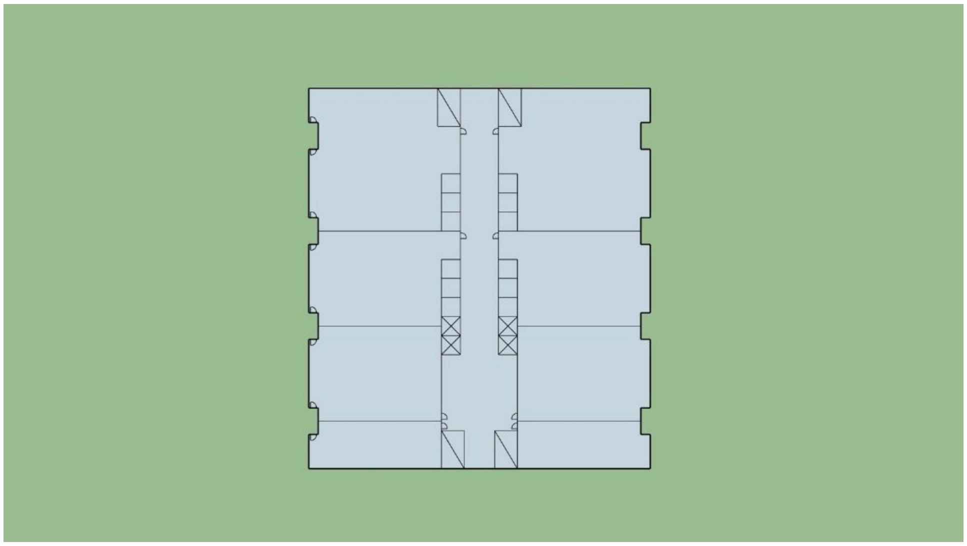
1st Floor



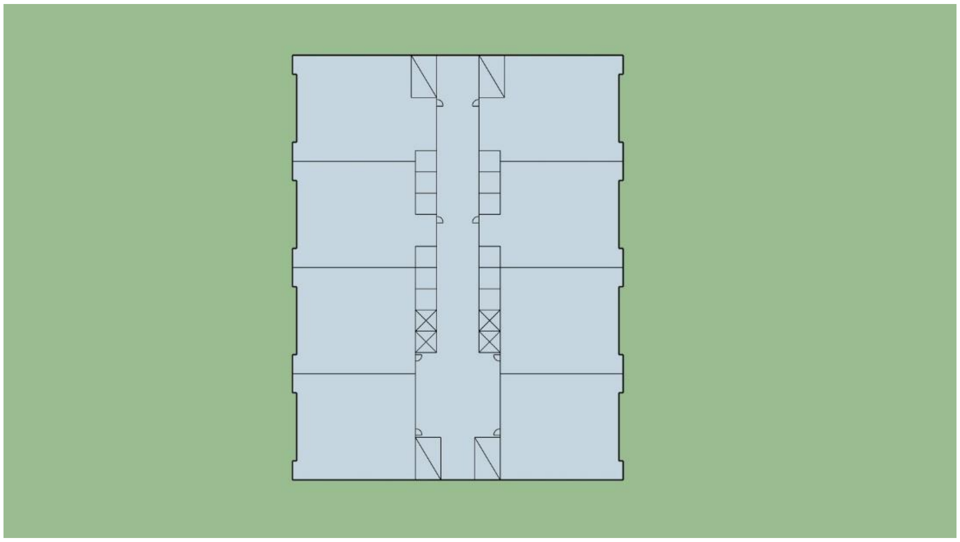
2nd Floor



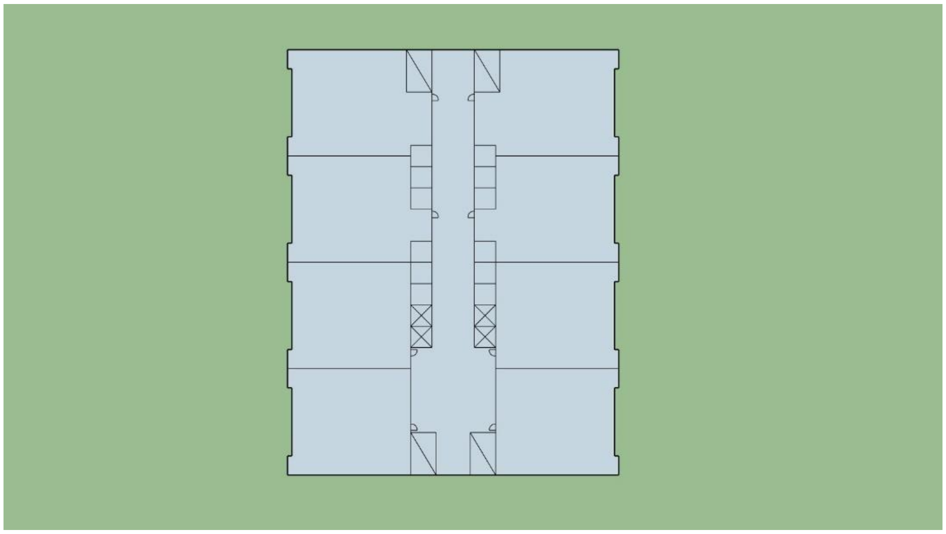
3rd Floor



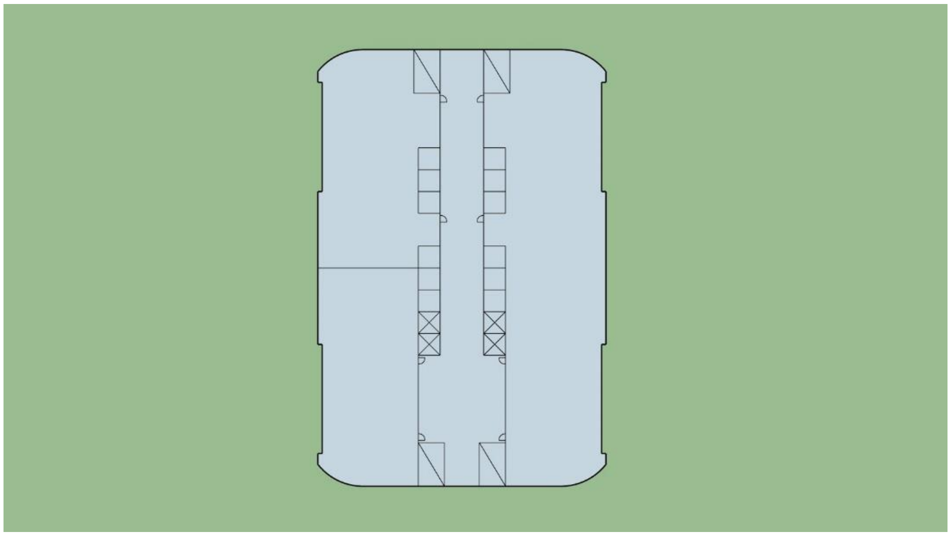
4th Floor



5th Floor



6th Floor



Yield Study

Building Income Breakdown					
Floor	Use	Gross Square Footage	Efficiency Factor	Net Square Footage	Gross Income
-3	Parking	0	70%	0	$0
-2	Parking	0	70%	0	$0
-1	Parking	36,000	70%	25,200	$226,781
1	Retail	32,800	85%	27,880	$787,950
2	Office	33,196	85%	28,217	$1,046,272
3	Office	32,724	85%	27,815	$1,060,045
4	Office	32,724	85%	27,815	$1,060,045
5	Office	28,360	85%	24,106	$918,680
6	Office	28,360	85%	24,106	$943,509
Total		**224,164**		**185,139**	**$6,043,281**

Square Footage Breakdown	
Parking Square Footage	25,200
Retail Square Footage	27,880
Office Square Footage	132,059

Development Costs

Development Cost Calculations					
	Per GSF	Total		Per GSF	Total
Expected Land Lease Cost	$3	$672,492	**Soft Costs**		
+ Infrastructure	$4	$896,656	+ Project Administration	$0	$53,799
= Total Land Cost	**$7**	**$1,569,148**	+ Architect/Engineering	$2	$468,503
			+ Insurance	$3	$616,451
Hard Costs			+ Testing/Inspection/Permits	$1	$130,015
Demolition	$1.55	$348,054	+ Tenant Improvements	$65	$14,570,660
Sitework	$20.00	$4,483,280	+ Leasing Commissions	$16	$3,586,624
Foundations	$9.30	$2,083,864	+ Special Fees	$2	$448,328
Substructure	$22.00	$4,931,608	+ Real Esate Taxes	$2	$448,328
Superstructure	$70.00	$15,691,480	+ Closing/Title Fees	$2	$448,328
Exterior Skin	$45.00	$10,087,380	+ Legal	$2	$448,328
Roofing	$6.05	$1,355,816	+ Financing	$1	$221,922
Interior Construction	$11.00	$2,465,804	+ Interim interest	$2	$448,328
Conveying	$7.53	$1,689,038	+ Advertising/Promotion	$2	$448,328
Special Construction	$1.00	$224,516	+ Leasing/Salary Expenses	$3	$672,492
Plumbing	$4.50	$1,008,738	+ Tenant Inducements	$3	$672,492
Fire Protection	$5.91	$1,324,477	+ Contingency - Soft 5.00%	$5	$1,184,146
Mechanical	$10.00	$2,241,640	+ Corporate Overheac 0.00%	$0	$0
Electrical	$18.00	$4,034,952	= Total Soft Costs	**$111**	**$24,867,073**
Jobsite Management	$1.00	$224,164			
Site Requirements	$2.50	$560,410	Total Hard and Soft Costs	**$346**	**$77,622,293**
Total Hard Costs	**$235**	**$52,755,220**	Land Lease, Hard, and Soft Costs	**$353**	**$79,191,441**

Building Amenities

The Woodworks will provide a competent and competitive tenant amenity package to encourage leasing activity. This project will provide to its office tenants an exercise studio, bicycle storage, shower facility, parking space allotments, children's daycare tenant, private security. Leasable multipurpose outdoor terrace space is available across three different levels. Additionally, careful consideration will be given to retail tenants on the ground floor with priority leasing conditions granted to women and minority-owned businesses, organic eateries, and locally-sourced retail products whenever possible.

Building Systems

Parking

One full block of parking will be provided under the ground floor of the Woodworks, totaling 67 parking stalls complete with 6 EV charging stations and representing a parking ratio of 0.5/1000 square feet. Ingress/egress for this garage will be located along NE Oregon St with access to both the southbound MLK Blvd and the northbound NE Grand Ave on either side.

Green Considerations

The Woodworks building will incorporate a number of green strategies, not only to reach a LEED Gold certification, but also in order to reach maximum operational efficiency for its tenants and for the environment. There will be a natural stormwater filtration system using

drain rock infrastructure, which will water the native landscaping on site and also prevent run-off and pollution into the surrounding rivers. Additionally, the roof of the Woodworks building will be painted white, which is a budget-friendly way to easily reflect heat in the warmer months in order to keep the building's temperature comfortable while limiting the use of traditional air conditioning. The native landscaping will consist of low maintenance vegetation that will purify the air and add ambiance without requiring constant attention and water. The site of the Woodworks building was strategically picked as it nears multiple forms of transit, which will encourage tenants and visitors alike to use the train or streetcar instead of driving their own car. Lastly, the building will have showers, locker rooms, and free bicycle parking to encourage walking or biking to work for those who have the option.

Market Conditions

National Economic Outlook

There has been an immense amount of growth since the great recession and the market for creative office space has continued to consistently strengthen. The current unemployment rate of 3.7% is comparatively low when assessing this statistic across the past two decades. The unemployment rate has naturally experienced small fluctuations over the past nineteen years but it has steadily declined as a whole. Additionally, consumer spending has continued to increase since the recession, which indicates the confidence of consumers and a generally healthy economy.

Portland Demographics

The last recorded census population in Portland was in 2015, and the population at that time was just over 600,000 but the population grows by an estimated 10,000 people per year. The median age in Portland proper is 36, the average household income is $66,187, and the poverty rate is 16.2%. The three most dominant ethnicities in Portland are white, Asian, and Hispanic or Latino. The population for close-in east-side of Portland as of 2015 was just over 12,000 and the median household income is $56,743. Unemployment in this neighborhood closely mirrors the national rate of about 4%. Relevant to this project, the Oregon Employment Department forecasts Tech Sector growth in the range of 15 percent between 2017 and 2027. Similar statistics project 12 percent growth in all industries combined. Computer design systems are projecting a growth rate of 29%, and software publishing services are projecting growth rates of 26 %.

East-side Close-in Demographics

The population of the neighborhood as of 2015 was just over 12,000 and the median household income is $56,743. Unemployment in this neighborhood closely mirrors the national rate of about 4%. Tech type office spaces are in increasing demand here, as employment drivers for typical creative office space users are displaying encouraging signs of growth on Portland's east side.

Office Analysis Overview

As of Q2 2019, Portland has established itself as the fourth fastest growing market for new tech workers (15,540), boasting a 35.3% increase in tech talent over a five-year period. Additionally, the percentage of millennials in their 20's has risen by 9% during the period of 2012 – 2017. Portland is ranked ninth in the nation in educational attainment. 49.9% of the 25-year old have a BA or higher. While the broader job market has slowed, the tech sector in Portland is still growing with $603 million in start-up capital flowing into this market in 2018 alone. This investment was the largest increase in start-up capital since the dot-com bubble of 2000.

The Development Pipeline for Portland includes over 330,000 space will be added to the Lloyd District and Close-in SE Portland in Q2-Q4 2019. In Q1 2021 over 330,000 square feet of office space will be added in the Lloyd District. Office absorption slowed in Q1 2018, but outpaced supply in Q2 2018. Supply outpaced demand again in Q4 of 2018. However in Q1 2019, demand has outpaced supply. The Woodworks are adding an additional 132,059 square feet of supply in 2023. By 2023, economists believe that the demand for new supply will be high for creative office space on the east side and in the Lloyd District. The assumption is that the demand for class A creative office on the east side will continue to be high over the long term.

Hotel Analysis Overview

Roundtable's initial analysis of a potential new development included a mixed-use program consisting of retail, office and hotel elements. The Hyatt Regency, which is due to be delivered in early 2020, will add 600 new guestrooms to the preexisting pool of hotel supply within close proximity to the convention center site. The Hyatt has established an entry point of $150 per night, which could have negative implications for the pool of supply for all hotels in the Portland Metro Area in the short term. In context, this price point pushes the existing price structures in the Lloyd District and the Central Business District. The room rates for area hotels range from $120 a night at the Motel 6, $137 a night at the Inn at the Convention Center, $154 a night at the Shilo Inn Rose Garden, $179 a night at the Courtyard by Marriott and $331 at the Crown Plaza. After considering the existing hotel availability and the pipeline of hotel deliveries in the immediate submarket, the decision was made to avoid adding hotel units and attempting to compete in the hotel market over the near term.

Retail Analysis Overview

The retail market in Portland has experienced clear highs and lows since the turn of the century, similar to other increasingly dense and developing cities. Retail has shifted along with the habits of the younger generations, primarily millennials and generation Z, which is challenging the way that big box retailers and shopping malls operate. As opposed to the generations before them, the younger generations as a whole tend to spend more money on experiences such as food, drink, and concerts than they do on other retail products, which is why many malls are shifting towards entertainment based themes and many big box retailers are struggling as a result. To avoid this negative trend and to give shoppers a unique Portland experience, the Woodworks building will use the PDX airport as an inspiration and target local retailers such as Columbia Sportswear, Pendleton Woolen Mills, Salt and Straw, and many more.

Housing Analysis Overview

Portland's multifamily housing market poses several unique challenges to the development community, which ultimately discouraged this team from selecting a housing use. Changing regulatory conditions increases risk factors for future leasing. Inclusionary housing zoning changes the dynamic of possible tenanting strategies in the future, and newly minted state-wide rent control laws have shaken investor trust in Portland. Plateauing rental rate growth in the close-in downtown area may be indicative of a maturing market, as a consistent rental growth rate of 3.3% the late quarters of 2018 gave way to a rate of 2.5% in Q2 2019. This particular site's location was also deemed less-than-optimal for housing due to the high volume of traffic on either side of the site, and the lack of retail services adjacent to the bustling convention center. Portland's uncertain regulatory conditions pose a risk to developers despite the evident undersupply of affordable housing, which has led the project efforts away from the use of housing.

Financial Strategy

Build, Stabilize, Hold

The primary strategy of this development will be to develop, stabilize, and refinance the asset for a long term hold. The key metrics in this scenario are the cash on cash, return on cost, internal rate of return, and the equity multiple. Upon analysis of all available building data including operating data, rents, escalations, efficiency factors, etc., a traditional long term hold-and-refinance strategy was selected.

The cash-on-cash return after the refinance came out to 10.74% in year six, with a 10-year hold horizon C-O-C return of 17.54%. Return on cost was calculated at 6.66% which yielded a 116 basis-point spread above market cap rates. The internal rate of return emerged at 11.57% assuming a sale at the end of Year 10. The assumed sales price would be based off of Year 11's net operating income. An IRR of 11.57% for a project of this risk profile is competitive in a challenging Portland development market. The equity multiple for the holding period came out to 2.02x.

Refinancing

After securing an 86% LTC loan, the lender would be in an equivalent 66% LTV loan on the property with a DSCR of 1.31. The original construction loan at a 70% LTC of $42,357,462 would then be offset by the new 86% LTC loan of $68,104,639. Initially, $36,833,979 of equity was necessary to construct the building. With the new loan in place, $11,086,802 remained in the project as equity, thus allowing for the reallocation of $25,747,177 in the form of tax free equity. This refinance strategy is preferable for an owner/investor, because it allows them to keep money in a project with an 11.72% cash-on-cash return in the first year after the refinance (Year 6), while also freeing 69.90% of their original investment for reallocation into new investments.

Assumptions

PGI inflation is assumed at 3% for both the office and the retail portions of the project. Office rent growth for the Lloyd district peaked at 10% in 2014 then remained steady at 6% for 2014, 2016, and 2017. Rent growth then bumped up to 8% in 2017 and has steadily declined since then to its current level of around 3.1% as of the third quarter of 2019. It should be noted, however, that the projected rent growth for the Lloyd District is higher than that of the CBD, even though the CBD's asking rent rates are slightly higher. The rental rates for Woodworks' closest comp, the District Office, are $32-39/SF asking in today's market. That project has achieved more than 50% pre-leasing, indicating that the asking rental rates assumed by the Woodworks are within market range. Although rents may experience a temporary lull in the coming year or two, they are projected to recover and support the assumed rents underwritten by Roundtable in concurrence with the Woodworks' delivery and stabilization.

Assumed vacancy factor is set at a conservative 10% for both the office and the retail portions of the project, as well as for prevailing load factor assumptions. Current analysis of the Lloyd District indicates office vacancies at 5.9% for the entire submarket with 4 and 5 star space at 5.2%.

An operating expense ratio of 50% was assumed despite common broker practice of assuming 35%, due to the unique TI buildouts offered by the Woodworks. Expense reimbursements were assumed at 98%. Operating expense inflation was set at the industry standard of 3% and the efficiency factor for both office and retail were assumed at 85% as is common across CLT construction types.

Interest / Cap Rates

As with any development, this project does entail some level of risk in the form of construction cost overruns, interest rate fluctuations, lease-up risk, unknown environmental contamination, market conditions at the time of reversion, and others. These risks are addressed and mitigated by signing a Guaranteed Maximum Price contract with the general contractor, including contingencies for both hard and soft costs, using an interest rate that is 25 basis points above the rate that was quoted, providing a top notch amenity package, being conservative with the escalations that would benefit the project, and overestimating expenses.

Sensitivity Analysis

Sensitivity Analysis

Sensitivity Analysis (At Year 5)

Potential Gross Income	$6,043,281	**Rent Increment**	2.00%
- Vacancy and Credit Loss	$592,989	**Cap Rate Increment**	0.13%
+ Load Factor	$605,869		
= Effective Gross Income	$6,007,723		
- Operating Expenses	$2,956,056		
+ Operating Expense Reimburseme	$2,896,935		
= Net Operating Income	$5,948,602		
Exit Cap Rate	5.50%		
Exit NOI	$5,452,881		
Capitalized Value	$99,143,286		

Capitalized Value Sensitivity Analysis

	$5,132,208	$5,236,947	$5,343,823	**$5,452,881**	$5,561,938	$5,673,177	$5,786,641
5.13%	$100,140,638	$102,184,325	$104,269,719	$106,397,673	$108,525,626	$110,696,139	$112,910,061
5.25%	$97,756,337	$99,751,365	$101,787,107	$103,864,395	$105,941,683	$108,060,516	$110,221,727
5.38%	$95,482,934	$97,431,566	$99,419,965	$101,448,944	$103,477,923	$105,547,481	$107,658,431
5.50%	$93,312,868	$95,217,212	$97,160,420	**$99,143,286**	$101,126,152	$103,148,675	$105,211,648
5.63%	$91,239,248	$93,101,274	$95,001,300	$96,940,102	$98,878,904	$100,856,482	$102,873,612
5.75%	$89,255,786	$91,077,333	$92,936,054	$94,832,708	$96,729,362	$98,663,950	$100,637,229
5.88%	$87,356,727	$89,139,517	$90,958,691	$92,814,991	$94,671,291	$96,564,717	$98,496,011

Interest Rates Sensitivity

	Most Likely	**Pessimistic**	**Optimistic**
Construction Start	2021	2021	2021
Total Costs	$79,191,441	$79,191,441	$79,191,441
NOI (Year 4)	$1,444,208	$1,444,208	$1,444,208
Construction Loan Interest	5.75%	6.75%	4.75%
Yearly Debt Service (Construction)	$2,435,554	$3,124,269	$2,536,495
Permanent Loan Interest	4.25%	5.25%	4.00%
Yearly Debt Service (Permanent)	$4,020,407	$4,301,998	$3,719,351
Lease-Up Time Frame	12	12	12
Reversion Cap Rate	5.50%	5.50%	5.50%
Net Proceeds	$46,348,663	$46,348,663	$46,348,663
Levered IRR	4.88%	22.36%	26.11%

Construction Costs

	Most Likely	**Pessimistic**	**Optimistic**
Construction Start	2021	2021	2021
Total Costs	$79,191,441	$85,526,756	$76,815,698
NOI (Year 4)	$1,444,208	$1,444,208	$1,444,208
Construction Loan Interest	5.75%	5.75%	5.75%
Yearly Debt Service (Construction)	$2,435,554	$2,989,674	$2,661,372
Permanent Loan Interest	4.25%	4.25%	4.25%
Yearly Debt Service (Permanent)	$4,020,407	$4,020,407	$4,020,407
Lease-Up Time Frame	12	12	12
Reversion Cap Rate	5.50%	5.50%	5.50%
Net Proceeds	$46,348,663	$46,348,663	$46,348,663
Levered IRR	4.88%	22.32%	32.81%

Project Level Financials

Before Tax Cash Flows	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Potential Gross Income	$0	$0	$0	$0	$1,466,816	$6,043,281	$6,224,580	$6,411,317	$6,603,656	$6,801,766	$7,005,819	$7,215,994
- Vacancy and Credit Loss	$0	$0	$0	$0	$143,929	$592,989	$610,779	$629,102	$647,975	$667,414	$687,437	$708,060
+ Load Factor	$0	$0	$0	$0	$146,682	$605,869	$625,741	$646,378	$667,821	$690,112	$713,297	$737,427
= Effective Gross Income	$0	$0	$0	$0	$1,458,559	$6,007,723	$6,186,259	$6,369,982	$6,559,030	$6,753,544	$6,953,668	$7,159,548
- Operating Expenses	$0	$0	$0	$0	$717,583	$2,956,056	$3,044,313	$3,135,177	$3,228,719	$3,325,017	$3,424,146	$3,526,188
+ Operating Expense Reimbursement	$0	$0	$0	$0	$703,231	$2,896,935	$2,983,427	$3,072,473	$3,164,145	$3,258,516	$3,355,664	$3,455,665
= Net Operating Income	$0	$0	$0	$0	$1,444,208	$5,948,602	$6,125,373	$6,307,278	$6,494,456	$6,687,044	$6,885,186	$7,089,024
- Debt Service	$0	$0	$0	$608,889	$2,435,554	$4,020,407	$4,020,407	$4,020,407	$4,020,407	$4,020,407	$4,020,407	
- Lease Payment		$0	$672,492	$672,492	$672,492	$672,492	$672,492	$672,492	$672,492	$672,492	$672,492	$672,492
Initial Construction Equity						$36,833,979						
Equity Needed for Refinance						$11,086,802						
+ Equity Return to Investors						$25,747,177						
= Before Tax Tash Flow	-$1,941,919	-$12,557,034	-$24,591,347	-$1,281,381	-$1,663,839	$23,958,438	$1,432,474	$1,614,380	$1,801,557	$1,994,145	$2,192,287	
Future Sale Value	$0	$0	$0	$0		$99,143,286	$102,450,661	$105,853,883	$109,355,491	$112,958,065	$116,664,225	
- Costs of Sale	$0	$0	$0	$0	$0	$4,957,164	$5,122,533	$5,292,694	$5,467,775	$5,647,903	$5,833,211	
= Gross Sale Proceeds	$0	$0	$0	$0	$0	$94,186,122	$97,328,128	$100,561,189	$103,887,716	$107,310,162	$110,831,014	
- Remaining Loan Balance	$0	$0	$0	$0	$0	$65,758,574	$64,508,748	$63,204,757	$61,844,254	$60,424,790	$58,943,810	
= Net Sale Proceeds	$0	$0	$0	$0	$0	$28,427,547	$32,819,380	$37,356,432	$42,043,462	$46,885,371	$51,887,204	

Project Level IRR Investment Metrics Before Tax (Refinance and Hold)

Detailed Project Level IRR Calculations

	Entitlements	Construction	Construction	Sale at EOY 4	Sale at EOY 5	Sale at EOY 6	Sale at EOY 7	Sale at EOY 8	Sale at EOY 9	Sale at EOY 10
Year 0					-$1,941,919	-$1,941,919	-$1,941,919	-$1,941,919	-$1,941,919	-$1,941,919
Year 1					-$11,884,542	-$11,884,542	-$11,884,542	-$11,884,542	-$11,884,542	-$11,884,542
Year 2					-$27,748,681	-$27,748,681	-$27,748,681	-$27,748,681	-$27,748,681	-$27,748,681
Year 3					-$37,615,935	-$37,615,935	-$37,615,935	-$37,615,935	-$37,615,935	-$37,615,935
Year 4					$771,716	$771,716	$771,716	$771,716	$771,716	$771,716
Year 5					$99,462,231	$5,276,110	$5,276,110	$5,276,110	$5,276,110	$5,276,110
Year 6						$102,781,008	$5,452,881	$5,452,881	$5,452,881	$5,452,881
Year 7							$106,195,975	$5,634,786	$5,634,786	$5,634,786
Year 8								$109,709,680	$5,821,964	$5,821,964
Year 9									$113,324,714	$6,014,552
Year 10										$117,043,708

Investment Return Metrics

Cap Rate	5.50%									
Equity Multiple					1.27	1.37	1.49	1.60	1.72	1.84
IRR on Project Before Tax					8.97%	9.01%	9.03%	9.04%	9.04%	9.05%
GPV of Project @ Discount Rate					$3,604,589	$4,272,567	$4,903,668	$5,499,907	$6,063,177	$6,595,263
NPV of Project @ Discount Rate					$2,380,851	$3,139,476	$3,854,510	$4,528,464	$5,163,693	$5,762,407

Equity Level Financials

Before Tax Cash Flows	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Potential Gross Income	$0	$0	$0	$0	$1,466,816	$6,043,281	$6,224,580	$6,411,317	$6,603,656	$6,801,766	$7,005,819	$7,215,994
- Vacancy and Credit Loss	$0	$0	$0	$0	$143,929	$592,989	$610,779	$629,102	$647,975	$667,414	$687,437	$708,060
+ Load Factor	$0	$0	$0	$0	$146,682	$605,869	$625,741	$646,378	$667,821	$690,112	$713,297	$737,427
= Effective Gross Income	$0	$0	$0	$0	$1,458,559	$6,007,723	$6,186,259	$6,369,982	$6,559,030	$6,753,544	$6,953,668	$7,159,548
- Operating Expenses	$0	$0	$0	$0	$717,583	$2,956,056	$3,044,313	$3,135,177	$3,228,719	$3,325,017	$3,424,146	$3,526,188
+ Operating Expense Reimbursement	$0	$0	$0	$0	$703,231	$2,896,935	$2,983,427	$3,072,473	$3,164,145	$3,258,516	$3,355,664	$3,455,665
= Net Operating Income	$0	$0	$0	$0	$1,444,208	$5,948,602	$6,125,373	$6,307,278	$6,494,456	$6,687,044	$6,885,186	$7,089,024
- Debt Service	$0	$0	$0	$608,889	$2,435,554	$4,020,407	$4,020,407	$4,020,407	$4,020,407	$4,020,407	$4,020,407	
- Lease Payment		$0	$672,492	$672,492	$672,492	$672,492	$672,492	$672,492	$672,492	$672,492	$672,492	$672,492
Initial Construction Equity						$36,833,979						
Equity Needed for Refinance						$11,086,802						
+ Equity Return to Investors						$25,747,177						
= Before Tax Tash Flow	-$1,941,919	-$12,557,034	-$24,591,347	-$1,281,381	-$1,663,839	$23,958,438	$1,432,474	$1,614,380	$1,801,557	$1,994,145	$2,192,287	
Future Sale Value	$0	$0	$0	$0		$99,143,286	$102,450,661	$105,853,883	$109,355,491	$112,958,065	$116,664,225	
- Costs of Sale	$0	$0	$0	$0	$0	$4,957,164	$5,122,533	$5,292,694	$5,467,775	$5,647,903	$5,833,211	
= Gross Sale Proceeds	$0	$0	$0	$0	$0	$94,186,122	$97,328,128	$100,561,189	$103,887,716	$107,310,162	$110,831,014	
- Remaining Loan Balance	$0	$0	$0	$0	$0	$65,758,574	$64,508,748	$63,204,757	$61,844,254	$60,424,790	$58,943,810	
= Net Sale Proceeds	$0	$0	$0	$0	$0	$28,427,547	$32,819,380	$37,356,432	$42,043,462	$46,885,371	$51,887,204	

Equity Level Investment Return Metrics Before Tax (Refinance and Hold)

Detailed Equity Level IRR Calculations

	Entitlements	Construction	Construction	Sale at EOY 4	Sale at EOY 5	Sale at EOY 6	Sale at EOY 7	Sale at EOY 8	Sale at EOY 9	Sale at EOY 10
Year 0					-$1,941,919	-$1,941,919	-$1,941,919	-$1,941,919	-$1,941,919	-$1,941,919
Year 1					-$12,557,034	-$12,557,034	-$12,557,034	-$12,557,034	-$12,557,034	-$12,557,034
Year 2					-$24,591,347	-$24,591,347	-$24,591,347	-$24,591,347	-$24,591,347	-$24,591,347
Year 3					-$1,281,381	-$1,281,381	-$1,281,381	-$1,281,381	-$1,281,381	-$1,281,381
Year 4					-$1,663,839	-$1,663,839	-$1,663,839	-$1,663,839	-$1,663,839	-$1,663,839
Year 5					$52,385,985	$23,958,438	$23,958,438	$23,958,438	$23,958,438	$23,958,438
Year 6						$34,251,854	$1,432,474	$1,432,474	$1,432,474	$1,432,474
Year 7							$38,970,811	$1,614,380	$1,614,380	$1,614,380
Year 8								$43,845,019	$1,801,557	$1,801,557
Year 9									$48,879,517	$1,994,145
Year 10										$54,079,491

Investment Return Metrics

	Sale at EOY 5	Sale at EOY 6	Sale at EOY 7	Sale at EOY 8	Sale at EOY 9	Sale at EOY 10
Equity Multiple	1.25	1.38	1.53	1.69	1.85	2.02
IRR on Equity Before Tax	6.90%	8.74%	9.93%	10.71%	11.23%	11.57%
GPV of Equity @ Discount Rate	$702,849	$2,940,016	$4,997,334	$6,888,314	$8,625,468	$10,220,377
NPV of Equity @ Discount Rate	($1,239,070)	$998,097	$3,055,415	$4,946,396	$6,683,549	$8,278,458
Cash on Cash	179.56%	10.74%	12.10%	13.50%	14.95%	16.43%
DSCR	1.31	1.36	1.40	1.45	1.50	1.55

Capital Structure

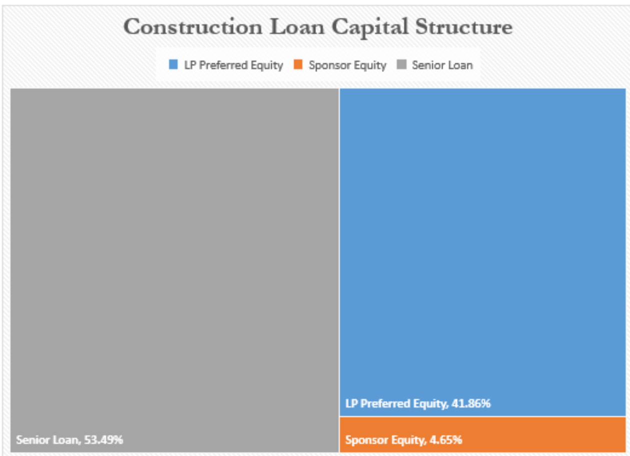
Capital Structure During Construction vs. After the Refinance Occurs

Total Development Cost (Uses of Funds) **$79,191,441**

<u>Sources of Funds</u>

	% TDC	Amount	
LP Preferred Equity	41.86%	$33,150,581	90%
Sponsor Equity	4.65%	$3,683,398	10%
Senior Loan	53.49%	$42,357,462	
Total Sources of Funds (TDC)	**100.00%**	**$79,191,441**	

Finance Check
Financing Check Ok

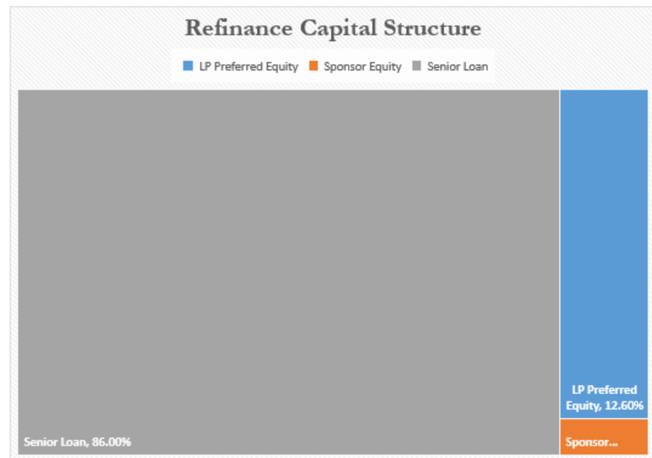


Market Value of Refinace (Uses of Funds) **$79,191,441**

<u>Sources of Funds</u>

	% TDC	Amount	
LP Preferred Equity	12.60%	$9,978,122	90%
Sponsor Equity	1.40%	$1,108,680	10%
Senior Loan	86.00%	$68,104,639	
Total Sources of Funds (TDC)	**100.00%**	**$79,191,441**	

Finance Check
Financing Check Ok



Assumptions

Income Assumptions	Office	Retail	Hotel	Parking	Food Cart
Office Floors 2-3 per SQFT	$36				
Office Floors 4-6 per SQFT	$37				
Office Floors 6 per SQFT	$38				
First Floor Retail per SQFT		$30			
Rooftop Restaurant per SQFT		$0			
Hotel Floor Plan 1 Average Rate			$0		
Hotel Floor Plan 2 Average Rate			$0		
Hotel Floor Plan 3 Average Rate			$0		
Hotel Floor Plan 4 Average Rate			$0		
Hotel Floor Plan 5 Average Rate			$0		
Monthly Price per Parking Stall				$275	
Yearly Price per Parking Stall				$3,300	
Food Cart Stall per SQFT					$0
Weighted Average Rent per SQFT					

Escalation Assumptions	Office	Retail	Hotel	Parking	Food Cart
PGI Inflation	3%	3%	3%	3%	3%
Vacancy Rate	10%	10%	25%	5%	2%
Load Factor	10%	10%	3%	10%	10%
Operating Expense Ratio	50%	50%	50%	25%	50%
Operating Expense Inflation	3%	3%	3%	3%	3%
Operating Expense Reimbursement	98%	98%	0%	98%	98%
Efficiency Factor	85%	85%	85%	70%	100%

Pro Forma Checks	
Go or No-Go	GO
PGI Check	PASS
NPV Check	PASS
DSCR Check	PASS
Equity Needed Check	PASS
Capital Structure (Sell) Check	PASS
Capital Structure (Hold) Check	PASS
Refinance Equity Check	PASS

Building Income Breakdown

Floor	Use	Gross Square Footage	Efficiency Factor	Net Square Footage	Gross Income
-3	Parking	0	70%	0	$0
-2	Parking	0	70%	0	$0
-1	Parking	36,000	70%	25,200	$226,781
1	Retail	32,800	85%	27,880	$787,950
2	Office	33,196	85%	28,217	$1,046,272
3	Office	32,724	85%	27,815	$1,060,045
4	Office	32,724	85%	27,815	$1,060,045
5	Office	28,360	85%	24,106	$918,680
6	Office	28,360	85%	24,106	$943,509
Total		224,164		185,139	$6,043,281

Square Footage Breakdown	
Parking Square Footage	25,200
Retail Square Footage	27,880
Office Square Footage	132,059

Construction Schedule Completion per Year	
Year 0	2.45%
Year 1	15.01%
Year 2	35.04%
Year 3	47.50%

Inn at the Convention Center

The northern block of the site is divided in half, the north of which is occupied by a small hotel owned by Prosper Portland, grossing $2.6 million in annual income. The most recent assessed market value of this hotel is nearly $11 million. Prosper Portland requires steady income streams from its assets in order to maintain solvency, preferring to avoid large cash liquidity. In light of the value of this particular income to its owner, careful considerations were given to the immediate future of this asset.

In 2018 the Inn earned a Net Overall Income of $1.6 million, illustrating its capacity to sustain itself into the near future. Expressed as a percent, the Inn's NOI is 35%-40% of its gross revenue, while its competitors are achieving merely 20-25%. The 2018 occupancy rate achieved by the Inn was 63% in comparison to the average occupancy of hotels in the Lloyd district of 68%. The overall mid-scale hotel market averaged a 70% occupancy rate in 2018. The average daily rate (ADR, a key operational indicator) from primary competitors was $103.20, while the Inn's was $106.53.

Following a management shift in 2013, revenues were doubled through improved product offering, service, and parking management. Existing stock of inventory includes 100 rooms that typically rent for $100-$175 per night, but can go as low as $75 depending on the season. The Inn is currently in the process of remodeling the exterior, lobby, meeting room and restaurant. The estimated cost of this remodel will be $2 - $3 million.

In order to remain competitive among the other hoteliers in the Lloyd, a hypothetical second phase of remodeling has been suggested. The various approximate costs estimated by the manager total $2.2 million. Neighboring competitor Hotel Eastland, the best comp for the Inn, has completed a new remodel for $39 million. They have approximately 200 rooms and typically charge $250-$300 a room, but can go as low as $150.

With an additional planned remodel plus the current remodel, the rental rate of the rooms could double. The total cost for both remodels would be approximately $5.2 million. Considering the Hotel Eastlund's substantial investment cost to reach a potential $300/night room rate, the Inn stands to generate similar rental rates with only 13% of Hotel Eastlund's associated costs.

A Second Phase of Remodeling

ITEM	Cost
Bathrooms	$250,000
Curtain wall	$500,000
Elevator upgrade	$250,000
FFE	$500,000
Hallway	$150,000
New roof	$150,000
Seismic upgrade	$100,000
Sprinklers	$300,000
Total	**$2,200,000**

Hotel Eastlund

Deal Structure

Prosper Portland's position in this deal structure allows for a greater long-term benefit to the community as a whole by keeping land ownership in Prosper Portland's control and thus allowing for revenue and considerable control over future development projects. Prosper Portland will receive six percent of the appraised value of the land for the duration of the 99-year lease. The projected revenue can be utilized in whatever way Prosper Portland deems appropriate with respect to fulfilling its role in the community. The forgivable loan for the demolition of Action Sports would be a significant cost savings over what Prosper Portland would pay to do this work as a public-works projects. The resulting land would be controlled and operated by Prosper Portland to potentially fill with displaced food cart vendors.

The space created for food carts is large enough to house up to 12 of them, by the reasoning of this development team. The market rate for food cart space leases varies depending upon location. The more in-demand the space, the higher the lease rate. Diversity in that program can be achieved through the tenant mix established by Proper Portland's selection of business owners. The long-term hold of the northern and southern lots creates an income stream for Prosper Portland. As land values increase in the long term, a 10-year hold will increase the asset value and will allow for Prosper Portland, as an owner, to incorporate that into the rationale of holding the hotel property and redeveloping a portion as office. The land values for the Inn at the Convention center will also increase a result of the office space on the lower levels, and because a half-lot development was not sought in this project the entire Inn block remains intact for future overhaul in accordance with Portland's future density goals.

Additional Rendering Images